

## Message Text

CONFIDENTIAL

PAGE 01 MADRID 04641 01 OF 02 291247Z  
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00  
SSO-00 ICAE-00 INRE-00 PM-05 H-01 INR-10 L-03  
PA-01 SP-02 SS-15 AID-05 COME-00 EB-08 FRB-03  
TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01  
AGRE-00 /077 W

-----112553 291257Z /43

O 291232Z APR 78

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 4412

INFO AMEMBASSY BONN PRIORITY

AMEMBASSY LISBON

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

C O N F I D E N T I A L SECTION 01 OF 02 MADRID 04641

PARIS ALSO FOR OECD

E.O. 11652: GDS

TAGS: OVIP (FRIEDRICH, BRUNO) GW, PO, SP

SUBJECT: FRIEDRICH VISIT TO WASHINGTON, SPAIN AND  
PORTUGAL

REF: BONN 07712

1. IT IS CERTAINLY POSITIVE AND DESIRABLE THAT GERMANS  
AND OTHER EUROPEANS SHOULD BE INTERESTED IN THE SPANISH  
ECONOMY AND CONCERNED THAT IT BE HEALTHY, FOR THERE IS  
INDEED AN IMPORTANT CONNECTION BETWEEN THIS AND THE  
STABILITY AND SUCCESS OF SPANISH DEMOCRACY. THUS MEN LIKE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 04641 01 OF 02 291247Z

FRIEDRICH AND EHMKE SHOULD BE ENCOURAGED.

2. AT THE SAME TIME IT WOULD BE USEFUL TO FOCUS THEM ON  
WHAT SPAIN'S REAL NEEDS ARE. FOR THE PRESENT, SPAIN'S  
GREATEST NEED IS, FIRST, DIRECT INVESTMENT CAPITAL THAT  
WILL CARRY WITH IT MANAGEMENT SKILLS AND TECHNOLOGY.  
GREATER INFUSIONS OF DIRECT INVESTMENT FROM ABROAD WOULD

HELP RE-ACTIVATE AND RATIONALIZE THE SPANISH ECONOMY AND STRENGTHEN THE PRIVATE SECTOR AT A TIME WHEN, ALTHOUGH THE POLITICAL CONSENSUS IS STILL FOR A MARKET ECONOMY, IMPORTANT SECTORS OF THE PSOE ARE AT BEST TENTATIVE, AND PERHAPS SHORT-TERM,SUPPORTERS OF THAT BASIC, FUNDAMENTAL CONCEPT. IN THIS REGARD, EXPANDED INVESTMENT GUARANTEE PROGRAMS FOR SPAIN MIGHT BE CONSIDERED.

3. THE SECOND PRINCIPAL CURRENT NEED IS FOR OTHER EUROPEAN SOCIALISTS TO REINFORCE THE SPANISH SOCIALISTS IN THEIR CURRENT TENDENCY TO MODERATION REGARDING STRUCTURAL CHANGES IN THE ECONOMY AS DISTINCT FROM THE TYPE OF QUITE BASIC REFORMS IN THE TAX STRUCTURE, IN INTRODUCTION OF GREATER OPENNESS AND COMPETITIVENESS INTO THE ECONOMY AND IN INCREASES IN SOCIAL BENEFITS THAT ARE ALREADY UNDER WAY UNDER THE MONCLOA PACT TO WHICH ALL MAJOR PARTIES SUBSCRIBED. THESE REFORMS ARE POSITIVE AND ARE ENOUGH FOR THE SPANISH TO ABSORB ECONOMICALLY AND POLITICALLY FOR THE PRESENT. TO GO SUBSTANTIALLY BEYOND THEM IN THIS PERIOD WOULD BE TO ENDANGER PROSPECTS FOR THE EARLY RETURN OF CONFIDENCE THAT IS SO NECESSARY TO RETURNING DYNAMISM TO THE ECONOMY AND THUS TO RESTORING A REASONABLE GROWTH LEVEL AND CONTAINING OR REDUCING UNEMPLOYMENT.

4. A THIRD PRINCIPAL CURRENT NEED IS THE MAINTENANCE OF OPEN MARKETS FOR SPANISH PRODUCTS. SPAIN MUST EXPORT TO  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MADRID 04641 01 OF 02 291247Z

HAVE A HEALTHY ECONOMY AND ALSO, WE WOULD SAY,TO HAVE A HEALTHY DEMOCRACY. THUS THERE ARE STRONG POLICY REASONS FOR EUROPEANS, AS WELL AS OURSELVES, TO RESIST TEMPTATIONS TO RESTRICT SPANISH EXPORTS AS THE SPANISH ECONOMY BECOMES MORE COMPETITIVE, AS IT CERTAINLY WILL IF IT CONTINUES UNDER THE SOUND MANAGEMENT IT PRESENTLY ENJOYS.

5. FOR THE LONGER TERM, SPAIN MAY ALSO NEED CONSIDERABLE CREDITS FOR, FOR INSTANCE, MODERNIZATION OF ITS MILITARY FORCES AND BASIC CAPITAL INFRASTRUCTURE, PARTICULARLY AS ECONOMIC GROWTH RESUMES WITH CONCOMITANT LIKELY RETURN OF PRESSURE ON THE BALANCE OF PAYMENTS FROM IMPORTS. FOR THE PRESENT THAT IS NOT A PROBLEM. THE TEXTBOOK STABILIZATION PROGRAM ENTERED INTO LAST AUTUMN HAS WORKED EXTRAORDINARILY WELL OVER THE SHORT TERM IN TERMS OF REDUCING INFLATION, SHARPLY IMPROVING THE CURRENT ACCOUNT, AND INCREASING RESERVES. IN VIEW OF THIS, AND OF WORLD PRIVATE BANKING LIQUIDITY, MORE CREDIT IS READILY AVAILABLE FROM THE INTERNATIONAL CAPITAL MARKETS NOW THAN SPAIN REALLY NEEDS IN THE SHORT TERM. BUT EXTERNAL DEBT IS RELATIVELY HIGH AT \$13 TO \$14 BILLION, GROWTH IS LOW AT AROUND 1 AND UNEMPLOYMENT IS ABOUT 6 AND RISING. THUS THE

PROSPECTIVE FUTURE NEEDS THAT HAVE BEEN DESCRIBED. THOSE FUTURE NEEDS WILL, OF COURSE, BE GREATER AND DIFFERENT, AND THE LONGER TERM POLITICAL CONSEQUENCES WILL BE SERIOUS, IF THE SPANISH GOVERNMENT DOES NOT STAY THE COURSE OVER THE NEXT COUPLE OF YEARS ON ITS STABILIZATION EFFORT TO THE POINT THAT CONFIDENCE WILL HAVE BEEN RESTORED AND THE GROUND PREPARED FOR ORDERLY, STRONG, COMPETITIVE, SUSTAINED GROWTH. THEREFORE, THE MESSAGE WITH REGARD TO THE LONGER TERM SHOULD BE THE IMPORTANCE OF MAINTAINING AND CONTINUING THE BASIC STABILIZATION EFFORT IN THE GENERAL TERMS AGREED FOR 1978 IN THE 1977 MONCLOA PACT, WITH ENCOURAGEMENT THAT CREDITS WILL BE AVAILABLE FOR LEGITIMATE NEEDS IF SUCH A SOUND POLICY FOUNDATION FOR THEM CONTINUES TO EXIST.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MADRID 04641 01 OF 02 291247Z

6. IN SUM, WE SEE THE INTEREST OF FRIEDRICH AND EHMKE IN SPAIN AND THE POSSIBILITY OF DIALOGUE WITH THEM AS POSITIVE. WE RECOMMEND THAT THEIR THINKING BE FOCUSED ON (A) SPAIN'S NEED FOR DIRECT INVESTMENT, AND THE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MADRID 04641 02 OF 02 291247Z  
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00  
SSO-00 ICAE-00 INRE-00 PM-05 H-01 INR-10 L-03  
PA-01 SP-02 SS-15 AID-05 COME-00 EB-08 FRB-03  
TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01  
AGRE-00 /077 W

-----112596 291257Z /43

O 291232Z APR 78

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 4413

INFO AMEMBASSY BONN PRIORITY

AMEMBASSY LISBON

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

C O N F I D E N T I A L SECTION 02 OF 02 MADRID 04641

PARIS ALSO FOR OECD

POSSIBILITY OF EXPANDED INVESTMENT GUARANTEE PROGRAMS,  
(B) THE DESIRABILITY OF REINFORCING THE PSOE IN ITS  
CURRENT MODERATION REGARDING ECONOMIC POLICY, (C) THE  
IMPORTANCE OF MAINTAINING AS OPEN MARKETS AS POSSIBLE FOR  
SPANISH EXPORTS, (D) THE IMPORTANCE OF SPAIN'S PERSEVERING  
IN ITS EXCELLENT STABILIZATION PROGRAM, AND (E) THE  
PROSPECTIVE LATER NEEDS FOR CREDITS FOR MILITARY AND  
ECONOMIC INFRASTRUCTURE NEEDS. STABLER

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 29 apr 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978MADRID04641  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780183-1058  
**Format:** TEL  
**From:** MADRID  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t1978042/aaaaabcm.tel  
**Line Count:** 183  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 0a75bca7-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 BONN 7712  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 23 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2856410  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FRIEDRICH VISIT TO WASHINGTON, SPAIN AND PORTUGAL  
**TAGS:** OVIP, GE, PO, SP, (FRIEDRICH, BRUNO)  
**To:** STATE USOECD  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/0a75bca7-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014